

PROJECT OVERSIGHT REPORT

Merchandising Business Systems Project (MBS)
Washington State Liquor Control Board (WSLCB)

Report as of Date:
June 2004

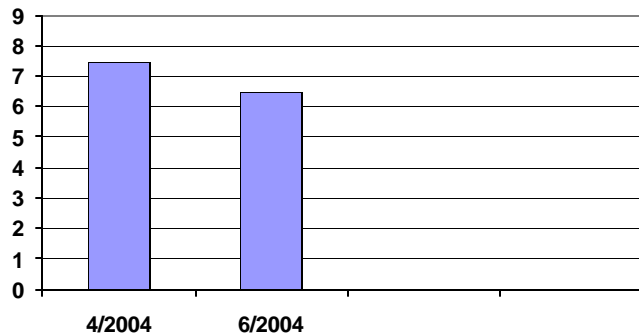
Project Director: Linda Bremer
Executive Sponsor: Pat Kohler

MOSTD Staff: Andy Marcelia

Severity/Risk Rating: High (high severity, high risk)

Oversight: Level 3 – ISB

Phase 1 Project Risk Assessment



Project Introduction: Since termination of the GERS contract, the WSLCB has identified the Point of Sale (POS) replacement as the highest priority for the agency and has set a goal to have the new POS equipment operational in all state run stores by October 2004. This priority was identified because of the project's impact on improving customer service and the risk to state revenue due to existing system failures.

Staff Recommendations (Phase 1): ISB staff recommends that the WSLCB return to a high level of communications with all stakeholders relative to the MBS project. Additionally, the WSLCB needs to develop and share an installation plan, schedule, and a training schedule, to manage headquarters and retail personnel. The project budget should be reviewed with the project steering committee.

Issues/Risks (Phase 1):

- **Schedule:** Late. New implementation schedules being proposed extend beyond the October 1, 2004 due date into late October. A bold step of installing the system in a store before functional testing was completed was taken to learn if there were problems that could not be encountered in the test environment. This test identified new problems only possible to see in the production environment. The production test continues with the system now deployed in 5 stores. A contractor will be engaged to install the new system in the stores and provide additional implementation resources. The October 1 due date to complete conversion of all stores will not be attainable without significant resources from an outside source to support the implementation plan. Functional testing has not been completed. All project schedule contingency has been used.
- **Budget/Cost:** The budget is expected to be within available resources. While the LCB Director has reviewed and approved the latest budget reporting, a current report on the budget has not been made available to the steering committee.
- **Scope:** No issues/risks.
- **Resources:** WSLCB is very thin in resources for critical IT functions. In acute situations there are insufficient resources to support operational issues and project activities

simultaneously. There is a risk that the long-standing October 1 due date cannot be met with the current deployment schedule. The agency has authorized bringing in a vendor to do the system rollout to the retail stores. A detailed plan for the rollout will not be developed until a vendor is under contract.

- Project Management/Processes: WSLCB's processes are CMM level 1 equivalent. The agency's lack of repeatable processes, ad hoc practices, undocumented business requirements, undocumented systems design and functionality, and the absence of operation guidelines and policies adversely impacts the project. The project manager just announced he was leaving the agency to start a new position July 1, 2004.

Status (Phase 1):

- Life Cycle Stage: Phase 1 is in the development and testing stage. The agency is developing the capability to operate the current POS software on the new hardware (Phase 1) and install the new hardware in the 161 state stores. The IBM SurePOS equipment was procured under the GERS contract.
- Project Management /Processes: Due to WSLCB's critical resource shortages, the agency has retained outside project management and added technical support for this project. The agency also recently authorized outsourcing the system rollout to the retail stores.
- Budget/Cost: The spending plan is based on current spending authority level.

Staff Recommendations (Phase 2): ISB staff recommends that the WSLCB include Triversity's sales audit product within the scope of the POS project because it provides functionality that more closely matches the functionality of the current LCB POS system. This will reduce modifications and cumbersome work-arounds needed to match missing functions. Using another component of the Triversity business system builds on the investment already made, assures system compatibility, and supports the agency's desire to adopt new process improvements that are industry best practices.

Issues/Risks (Phase 2):

- Schedule: No new issues/risks. Triversity, the POS software vendor, completed and delivered the business analysis report June 14. This report matches their product to WSLCB retail business requirements and estimates the implementation costs. The report is under review and the WSLCB is evaluating their options, which will impact scheduling.
- Budget/Cost: No new issues/risks. Cost estimates are expected to be within current spending authority levels.
- Scope: ISB staff recommends aligning the scope to better meet the needs of the WSLCB.
- Resources: No issues/risks.
- Project Management/Processes: No issues/risks.

Status (Phase 2):

- Life Cycle Stage: Phase 2 is a Triversity-conducted study to analyze and plan the implementation of their software in the state run liquor stores. Triversity was the POS subcontractor under the GERS contract. The study will seek to leverage the investment already made with this vendor's software testing and training. The WSLCB is assisting in the detailed analysis of the requirements for integrating the Triversity POS software to the

agency's existing merchandising systems and the state's accounting system. The WSLCB intends to use Triversity to implement the new POS system in the 161 state stores.

- Project Management /Processes: Triversity will provide project management services coupled with project management from the WSLCB. The WSLCB will be responsible for the overall management of Phase 2 and has identified a resource internally to assume this responsibility.
- Budget/Cost: The new spending plan is based on current spending authority level.

Strategy Moving Forward: In developing implementation strategies the WSLCB intends to:

- Mitigate the impact to customers
- Ensure the accurate distribution of over \$200 million/year in revenues to the state and local governments
- Protect and leverage MBS investments already made by the WSLCB for hardware, software, and training
- Stabilize the existing POS system before the 2004 holiday season
- Replace the existing POS system by the end of this biennium
- Meet other operational critical demands in the 2005-2007 biennium
- Position the WSLCB to realize incremental success and achieve critical project milestones by using a phased approach, and
- Position the WSLCB to use existing State enterprise systems whenever possible.

Phase 3 includes the planning and preparation to address the remaining business problems. Due to significant changes in the MBS project as a result of the contractor default, the WSLCB is revisiting the underlying planning assumptions for the future phases of the MBS project. The WSLCB will begin re-planning the strategy and approach to address the remaining business problems and the replacement and upgrade of critical components of the existing merchandising system immediately (i.e., general ledger, sales audit, forecasting, suggested replenishments, tax distribution, etc). The WSLCB will, if required, submit decision packages for the 2005 – 2007 biennium to complete this effort.

The WSLCB has retained Sterling Associates as a quality assurance consultant to document a new baseline for the agency to work from, determine what has changed, determine what problems have been solved, and identify what issues remain to be addressed. The agency will have to apply the lessons learned in MBS to any future plan and approach the remaining business problems realistically in order to increase its likelihood of success and identify alternative solutions. If existing support systems or enterprise systems cannot be used or leveraged, the WSLCB will acquire a solution that best supports the agency's operational needs. It will also be necessary to review and refresh the agency IT Portfolio before the agency MBS planning efforts can be completed.

Next Steps: The immediate goal is to stabilize the existing POS system before the 2004 holiday season sales volumes begin. Phase 1 should be completed in October 2004. Phase 2 should be ready following the 2004 holidays.

Budget: The appropriation for this project is \$4,802,720. The GERS contract was for \$4 million. The WSLCB has \$1.8 million remaining of the original appropriation to invest in a new strategy. In addition, there is a \$1.3 million proviso in operation funds for the new system, creating a total of \$3.1 million. The spending plan is based on the current spending authority level.

Background Information

Description: The 2001 Legislature authorized the WSLCB to replace its POS software with a commercially available product capable of managing and supporting the agency's retail business. These business activities include procurement (timely sales and marketing data), distribution (electronic tracking of shipping and handling), wholesale and special orders, and POS in the 161 state liquor stores. The contract agent stores are not included in the project.

The WSLCB selected GERS, a leading supplier of merchandising, point-of-sale, and e-business solutions for retailers with more than 400 systems installed. Following failure to pass user acceptance testing criteria the WSLCB terminated its contract with GERS for default effective November 24, 2003. The WSLCB stopped all work with GERS on the MBS project at that time. The WSLCB immediately began exploring alternatives to address its POS and business information systems needs.

Due to their information systems' age and obsolescence, the agency's merchandising systems represent a major exposure to the agency's ability to perform its core mission.

Technology: The WSLCB installed the IBM AIX/Oracle platform as proposed by GERS. The WSLCB purchased industry standard IBM cash registers and related POS equipment.